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AUTHOR	McKeown-Moak, Mary P.
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ABSTRACT

This is the third in a series of annual reports that summarize financial trends affecting higher education. State appropriations to higher education reached $60.6 billion in fiscal year (FY) 2001, an increase of 7.0% over FY 2000 in current funds, and a 5.0 constant dollar increase. However, total state general fund appropriations for all government sectors increased by 7.2% over FY 2000, marking the end of the era in which higher education appropriations outpaced the increase in total state general fund appropriations. Recent indications are that the economy is reaching a watershed, and that increased competition for state funds is likely in FY 2002. Total state appropriations to higher education declined to 12.8% of state budgets in FY 2001, after 2 years in a row of increases in higher education's share of state general fund budgets. A mix of issues was addresses in the 2000 legislative sessions. These included an increase in the use of performance measures and other accountability requirements and an interest in nonneed-based financial aid programs. On the student aid front, average levels of student indebtedness at graduation continued to increase alarmingly, with loans comprising more than 60% of all student financial aid. Workforce preparation, accountability, performance-based funding, affordability, and reform of teacher preparation programs are the top issues facing higher education on state legislative agendas in 2001. These issues and increasing competition for state resources mean that 2001 will be a challenging legislative year for higher education officials. (Contains 4 exhibits and 37 endnotes.) (SLD)

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FINANCING HIGHER EDUCATION IN THE NEW CENTURY:

THE THIRD ANNUAL REPORT FROM THE STATES

JUNE 2001

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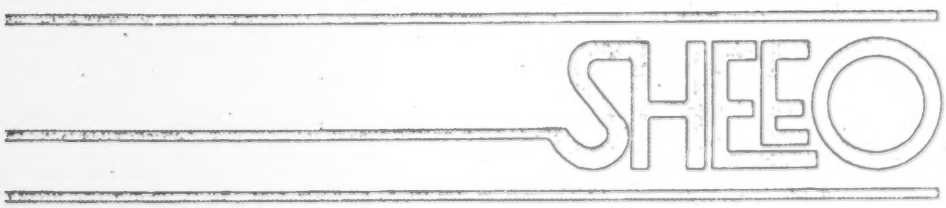

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FINANCING HIGHER EDUCATION IN THE NEW CENTURY: THE THIRD ANNUAL REPORT FROM THE STATES

Mary P. McKeown-Moak

June 2001

A Joint Project of

SHEEO and MGT of America

State Higher Education Executive Officers, 707 Seventeenth Street, Suite 2700, Denver, CO 80202-3427
Telephone (303) 299-3686 • Fax (303) 296-8332 • www.sheeo.org

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Dr. Mary P. McKeown-Moak is a Principal in MGT's Austin office.
MGT's website is www.mgtofamerica.com.

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Financing Higher Education in the New Century: The Third Annual Report from the States

A Joint Project of

SHEEO and MGT of America

Mary P. McKeown-Moak[1]

Overview

State appropriations to higher education reached $60.6 billion in FY2001, an increase of 7.0 percent over FY2000 in current funds, and a 5.0 constant dollar increase[2]. But, joyful singing may be over for much of public higher education as gray is intruding into the blue skies that higher education has enjoyed for the last three years. Total state general fund appropriations for all government services increased by 7.2 percent over FY2000, marking the end to the era of higher education appropriations outpacing the increase in total state general fund appropriations. Although the strong economy has allowed states to build rainy day funds, cut taxes, and make significant investments in education, recent indications are that the economy is reaching a watershed. Actual 2001 state revenues are coming in below forecasts and Medicaid growth is exceeding current year budget projections in over half the states. The combination of the two trends means that increased competition for limited state resources is likely in FY 2002.[3] About 20 percent of the states also report that mid-year budget reductions are likely during 2001. Alabama and Mississippi announced mid-year budget cuts; in Mississippi, budget cuts totaled 9 percent, which likely will result in a 10 percent tuition increase.[4] Total state appropriations to higher education declined to 12.8 percent of state budgets in FY 2001, after two years in a row of increases in higher education's share of state general fund budgets.[5]

A mix of issues was addressed in the 2000 legislative sessions including an increase in the use of performance measures and other accountability requirements, and an interest in non-need based financial aid programs. On the student aid front, average levels of student indebtedness at graduation continued to increase alarmingly and loans comprised over 60 percent of all student financial aid.[6]

Workforce preparation, accountability, performance based funding, affordability, and reform of teacher preparation programs are the top issues facing higher education on state legislative agendas in 2001.[7] And the nation's governors signaled their interest in higher education by launching a four-year initiative on higher education, "Influencing the Future of Higher Education."[8] When combined with increasing competition for state resources, especially from Medicaid and other health care programs, interest in the quality of educational programs and services, and continued interest in tuition reduction and the affordability of higher education, 2001 promises to be a challenging legislative year for higher education officials.

State Appropriations

FY2001 state operating budget appropriations for higher education reached the highest levels ever, according to data collected in the annual survey of State Higher Education Finance Officers (SHEFOs) conducted for *Grapevine*. Total state appropriations for FY2001 totaled $60.6 billion, an increase of $4.0 billion or 7.0 percent, over FY2000; and a $7.6 billion, or 14.5 percent increase over FY1999. (See Exhibit 1.) Data are presented for two years because many states have biennial budgets, in which large appropriations occur in the first year of the biennium, with no or small increases in the second year. [9] (Note: Any mid-FY2001 budget cuts are not reflected in Exhibit 1, but will be included in the FY2002 report.)

Appropriations to higher education increased 7.0 percent nationwide, compared to a 7.2 percent increase in total state budgets. In 25 states, increases in appropriations to higher education outpaced increases in the total state budget. (Note: Those states whose increases in higher education appropriations were less than the increases in the total state budget are shaded in Exhibit 1.) Three states (Hawaii, Louisiana and Texas) reported reductions in state appropriations for higher education from one year to the next. Between FY2000 and FY2001, total state budgets decreased in Alaska, Oregon, and Wisconsin, but higher education budgets did not decrease in those three states. Over the two-year period FY1999 to FY2001, no state reported a decline in total state appropriations for the support of higher education, although Alaska reported a decline in the total state budget. Nationally, appropriations for higher education increased 14.5 percent, compared to a 14.4 percent increase in total state budgets.

EXHIBIT 1

STATE APPROPRIATIONS AND BUDGET BALANCES

State	FY2000 State Approp. For Higher Education*	FY2001 State Approp. For Higher Education*	% Change over FY2000*	State Budget % Exp. Change**	2 Yr. % Change over FY99*	State Budget 2 yr. % Exp. Change**	FY2001 Balances State Funds**	FY2001 Balances as a % of Expend.**	FY2001 State Tax Actions**
Alabama	1,100,328	1,159,193	5.3%	4.9%	11.7%	11.4%	29,000	0.5%	0
Alaska	176,494	190,573	8.0%	-3.2%	11.8%	-2.9%	2,905,000	130.4%	0
Arizona	865,736	892,621	3.1%	2.3%	6.7%	4.5%	578,000	9.4%	-2,200
Arkansas	605,216	618,127	2.1%	2.7%	11.0%	8.3%	37,000	1.2%	-15,000
California	7,704,525	9,017,418	17.0%	17.3%	24.4%	33.5%	2,874,000	3.6%	-501,000
Colorado	719,221	743,483	3.4%	11.1%	9.0%	13.9%	860,000	12.9%	-170,900
Connecticut	696,108	710,339	2.0%	3.4%	13.9%	6.9%	565,000	5.0%	-221,000
Delaware	175,621	185,840	5.8%	23.7%	13.2%	28.0%	179,000	6.4%	0
Florida	2,639,821	2,829,525	7.2%	6.7%	13.1%	11.6%	1,309,000	6.5%	-411,500
Georgia	1,553,588	1,600,329	3.0%	1.9%	7.9%	11.0%	408,000	2.8%	0
Hawaii	341,986	339,030	-0.9%	5.8%	5.2%	4.3%	293,000	8.7%	-26,800
Idaho	279,290	298,210	6.8%	7.2%	11.9%	11.7%	39,000	2.2%	-29,000
Illinois	2,573,964	2,699,067	4.9%	5.4%	11.9%	12.6%	1,475,000	6.1%	-380,000
Indiana	1,226,677	1,283,197	4.6%	8.1%	11.8%	13.6%	1,221,000	12.6%	0
Iowa	824,062	851,124	3.3%	2.3%	8.4%	7.5%	615,000	12.6%	-11,400
Kansas	650,069	680,313	4.7%	0.9%	12.5%	5.0%	393,000	8.9%	-2,900
Kentucky	925,506	1,001,625	8.2%	7.2%	12.7%	7.4%	279,000	4.0%	21,300
Louisiana	882,798	880,064	-0.3%	4.9%	2.4%	4.6%	110,000	1.8%	209,800
Maine	213,024	228,917	7.5%	13.9%	14.9%	21.5%	150,000	5.7%	-30,600
Maryland	1,044,250	1,174,603	12.5%	12.1%	24.6%	17.8%	1,067,000	10.6%	-35,800
Massachusetts	1,040,083	1,145,029	10.1%	2.7%	17.4%	9.8%	1,718,000	8.5%	-327,000
Michigan	2,084,779	2,231,607	7.0%	5.1%	18.5%	3.5%	1,345,000	13.8%	-169,900
Minnesota	1,286,427	1,349,137	4.9%	8.6%	8.9%	16.2%	1,126,000	8.8%	-880,800
Mississippi	877,821	881,827	0.5%	3.7%	17.4%	16.3%	249,000	6.9%	0
Missouri	977,626	1,027,548	5.1%	3.5%	11.7%	7.5%	174,000	2.3%	0
Montana	138,477	141,688	2.3%	8.2%	9.1%	14.0%	118,000	9.9%	-18,400
Nebraska	475,158	526,041	10.7%	5.1%	19.5%	10.1%	323,000	13.1%	0
Nevada	305,983	316,613	3.5%	2.9%	9.0%	2.0%	298,000	18.0%	0
New Hampshire	95,790	98,695	3.0%	3.1%	8.3%	13.1%	44,000	4.1%	86,000
New Jersey	1,541,633	1,670,911	8.4%	7.8%	14.9%	15.7%	865,000	4.1%	0
New Mexico	544,090	568,295	4.4%	2.9%	9.9%	8.9%	264,000	7.6%	0
New York	3,209,687	3,452,636	7.6%	6.4%	11.2%	8.3%	1,085,000	2.7%	-903,500
North Carolina	2,270,323	2,398,489	5.6%	1.4%	11.6%	8.3%	158,000	1.1%	0
North Dakota	183,508	184,631	0.6%	6.2%	6.7%	8.2%	61,000	7.4%	0
Ohio	2,063,007	2,206,398	7.0%	7.2%	14.1%	15.0%	1,233,000	6.0%	-639,700
Oklahoma	740,544	779,872	5.3%	6.0%	7.5%	7.9%	444,000	9.2%	-10,100
Oregon	658,487	667,236	1.3%	-4.6%	19.9%	21.1%	439,000	8.9%	-14,200
Pennsylvania	1,876,807	2,005,364	6.8%	2.5%	13.1%	8.3%	1,174,000	5.9%	-773,700
Rhode Island	152,110	162,842	7.1%	8.4%	13.8%	17.8%	74,000	3.1%	2,400
South Carolina	812,709	880,120	8.3%	9.3%	13.2%	18.4%	247,000	4.4%	-25,400
South Dakota	130,345	134,803	3.4%	3.4%	7.1%	8.4%	37,000	4.8%	0
Tennessee	984,860	1,039,373	5.5%	6.7%	8.5%	13.7%	178,000	2.5%	0
Texas	4,072,434	4,029,799	-1.0%	0.1%	14.2%	8.1%	1,606,000	2.8%	0
Utah	511,096	543,691	6.4%	5.8%	11.1%	9.3%	116,000	3.3%	-26,500
Vermont	63,378	67,753	6.9%	1.4%	14.5%	5.0%	43,000	5.0%	-3,500
Virginia	1,481,579	1,629,776	10.0%	10.5%	25.4%	21.2%	693,000	5.6%	-19,900
Washington	1,237,155	1,333,911	7.8%	4.0%	16.4%	8.0%	1,082,000	10.2%	0
West Virginia	362,750	387,432	6.8%	8.0%	6.9%	9.3%	81,000	2.8%	5,200
Wisconsin	1,074,474	1,170,122	8.9%	-2.0%	12.5%	10.8%	361,000	3.3%	-319,000
Wyoming	139,711	153,582	9.9%	11.7%	9.9%	24.6%	26,000	4.1%	-5,300
National Total or Average	56,591,115	60,568,619	7.0%	7.2%	14.5%	14.4%	31,048,000	6.2%	-5,650,300
High	7,704,525	9,017,418	17.0%	23.7%	25.4%	33.5%	2,905,000	130.4%	209,800
Low	63,378	67,753	-1.0%	-4.6%	2.4%	-2.9%	26,000	0.5%	-903,500

Note: Dollars in thousands; shading indicates percentage increase less than percent change in state budget.
* Source: Grapevine. Figures for 2000 revised from prior year report.
** Source: National Association of State Budget Officers

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At the national level, total state general fund budgets increased 7.2 percent in FY2001 over FY2000, and 14.4 percent over FY1999. Every state reported general fund balances at the end of FY2000 and project fund balances or "rainy day funds" for FY2001. In FY2000 only Kansas reduced its budget mid-year, but ten states already have announced mid-year budget reductions for FY2001.[10]

States where increases in higher education funding were the greatest over the two years have experienced increases in enrollments, or have gone through major restructuring of the governance or funding of higher education. (This includes California, Maryland, and Virginia all of which had increases greater than 20 percent.) Many states earmarked increases in appropriations for moderation of tuition increases, workforce/economic development activities, student financial aid, and one-time expenditures such as construction, deferred maintenance and technology initiatives. The focus on one-time spending reflects a desire to avoid over-commitment of resources that led to reversions and budget cuts during the 1980s and early 1990s.[11]

However, FY 2001 projected surpluses are $10 billion less than FY2000 actual surpluses. Although FY2000 surpluses were projected to be $5 billion less than FY1999, actual FY2000 surpluses exceeded FY1999 levels due in large part to cautious spending patterns and much higher than projected revenues. FY1998 was the year in which fund balances reached their peak as a percentage of expenditures (9.2%). In contrast, FY2001 fund balances are projected to be 6.2 percent of projected state expenditures.[12] Every state provided employee compensation increases for FY2001, including increases for university employees.

In FY2001, higher education's share of state general fund operating budgets decreased from 13 percent in FY2000 to 12.8 percent.[13] In FY1987, higher education was allocated 15.5 percent of state general fund budgets for current operations. Higher education's share dropped to 12.9 percent in FY1997 and to 12.09 percent in FY1998, before increasing in to 13 percent in FY2000. The decrease in FY2001 may reflect expenditures of portions of the rainy day funds or fund balances for one-time appropriations to other state agencies, appropriations for capital programs that are not reflected in operating budgets, or the increasing appropriations for Medicaid. State general fund budgets as

reported by NASBO reflect tax rebates and reductions, and include capital spending and budget surpluses as expenditures.

Additionally, appropriations per FTE student (in constant dollars) continue to increase, but have not returned to the high levels of 1986 through 1988. Since 1993, state appropriations per full-time equivalent student have increased in constant dollars, according to data from Research Associates of Washington. In the years between 1988 and 1993, state appropriations per FTE student fell by more than 15 percent, but have now recovered to 1984 levels.[14]

Comparisons to the CPI. When compared to increases in the CPI,[15] over the time period FY1999 to FY2001, state appropriations to higher education have increased more than twice as fast as the CPI, 14.5 percent compared to 6.8 percent. Over the ten years between FY1991 and FY2001, state appropriations to higher education increased 52.0 percent, significantly greater than the CPI increase of 30.6 percent.

Arizona, Hawaii, Louisiana, and North Dakota are the only states where appropriations for higher education did not keep pace with projected increases in the Consumer Price Index (CPI) over the two-year time period FY1999 to FY2001. Over the one-year time period FY2000 to FY2001, appropriations for higher education did not keep pace with projected increases in the CPI in 13 geographically diverse states (Arizona, Arkansas, Connecticut, Georgia, Hawaii, Iowa, Louisiana, Mississippi, Montana, New Hampshire, North Dakota, Oregon, and Tennessee).

Regional Changes

When changes in appropriations are examined by region of the country, where region is defined by the National Association of State Budget Officers, there are significant variations in the percentage increase in appropriations. The southwest states (Arizona, New Mexico, Oklahoma, and Texas) which experienced the greatest average increase from FY1999 to FY2000, experienced the smallest regional increase from FY2000 to FY2001 (0.8%). The small rate of increase for these four states was driven by the fact that Texas is in the second year of a biennium during which increased funding was appropriated for the first year only.

The far west states (Alaska, California, Hawaii, Nevada, Oregon, and Washington) experienced the largest average increases over two years and over the one year time period, 22.6 and 13.8 percent respectively. These average increases were substantially greater than the national averages of 7.2 percent for the one year period and 14.5 percent over two years. Within the group of far west states, there was substantial variation: Hawaii experienced a one-year appropriations decrease of 0.9 percent, while California had a 17.0 percent increase.

When compared to the national average appropriation increases of 7.0 percent between FY2000 and FY 2001 and 14.5 percent between FY1999 and FY2001, only the far west states and the mid-Atlantic states experienced above-average increases for either time period. (See Exhibit 2.)

Capital Appropriations

For the purposes of this paper, capital appropriations or funding include revenues expended for land, new construction, renovation and repairs, equipment, debt service, and major building maintenance. State funds may be provided through direct appropriations to the institution or by appropriations to another state agency. For example, Maryland's Department of Planning is appropriated funds for the capital construction and renovation of buildings on the college and university campuses. Appropriations also may be made to the operating budgets of the institutions/agencies or to the capital budgets of the institutions/agencies.

In FY2001, 24 states provided information on state funding for capital projects. These 24 states indicated that over $3 billion was appropriated from FY2001 state funds for capital spending for institutions of higher education. State bonds are the principal funding source for capital, but state general revenues devoted to capital spending have grown in importance in recent years.[16]

The majority of the states reporting data (16 of 24) provide capital funds totaling $1.7 billion in 2001 through the capital budgets of institutions and their governing boards; over one-half of all capital appropriations are made to institutional capital budgets. Six states appropriated a total of $670 million to the capital budgets of other agencies such as state offices of planning or capital construction. Another 5 states appropriated more than $417 million to the operating budgets of institutions while 4 states appropriated a total of $286 million to the operating budgets of other state agencies.

EXHIBIT 2

REGIONAL CHANGES IN HIGHER EDUCATION APPROPRIATIONS

	FY2000 State Appropriations	FY2001 State Appropriations	% Change Over FY2000	2 Yr. % Change Over FY1999
Southeast:				
Alabama	1,100,328	1,159,193	5.3%	11.7%
Arkansas	605,216	618,127	2.1%	11.0%
Florida	2,639,821	2,829,525	7.2%	13.1%
Georgia	1,553,588	1,600,329	3.0%	7.9%
Kentucky	925,506	1,001,625	8.2%	12.7%
Louisiana	882,798	880,064	-0.3%	2.4%
Mississippi	877,821	881,827	0.5%	17.4%
North Carolina	2,270,323	2,398,489	5.6%	11.6%
South Carolina	812,709	880,120	8.3%	13.2%
Tennessee	984,860	1,039,373	5.5%	8.5%
Virginia	1,481,579	1,629,776	10.0%	25.4%
West Virginia	362,750	387,432	6.8%	6.9%
Subtotal, Southeast	14,497,299	15,305,880	5.6%	11.2%
Mid-Atlantic:				
Delaware	175,621	185,840	5.8%	13.2%
Maryland	1,044,250	1,174,603	12.5%	24.6%
New Jersey	1,541,633	1,670,911	8.4%	14.9%
New York	3,209,687	3,452,636	7.6%	11.2%
Pennsylvania	1,876,807	2,005,364	6.8%	13.1%
Subtotal, Mid-Atlantic	7,847,998	8,489,354	8.2%	15.2%
New England:				
Connecticut	696,108	710,339	2.0%	13.9%
Maine	213,024	228,917	7.5%	14.9%
Massachusetts	1,040,083	1,145,029	10.1%	17.4%
New Hampshire	95,790	98,695	3.0%	8.3%
Rhode Island	152,110	162,842	7.1%	13.8%
Vermont	63,378	67,753	6.9%	14.5%
Subtotal, New England	2,260,493	2,413,575	6.8%	13.8%
Great Lakes:				
Illinois	2,573,964	2,699,067	4.9%	11.9%
Indiana	1,226,677	1,283,197	4.6%	11.8%
Michigan	2,084,779	2,231,607	7.0%	18.5%
Ohio	2,063,007	2,206,398	7.0%	14.1%
Wisconsin	1,074,474	1,170,122	8.9%	12.5%
Subtotal, Great Lakes	9,022,901	9,590,391	6.3%	13.9%
Plains:				
Iowa	824,062	851,124	3.3%	8.4%
Kansas	650,069	680,313	4.7%	12.5%
Minnesota	1,286,427	1,349,137	4.9%	8.9%
Missouri	977,626	1,027,548	5.1%	11.7%
Nebraska	475,158	526,041	10.7%	19.5%
North Dakota	183,508	184,631	0.6%	6.7%
South Dakota	130,345	134,803	3.4%	7.1%
Subtotal, Plains	4,527,195	4,753,597	5.0%	10.9%
Southwest:				
Arizona	885,736	892,621	3.1%	6.7%
New Mexico	544,090	568,295	4.4%	9.9%
Oklahoma	740,544	779,672	5.3%	7.5%
Texas	4,072,434	4,029,799	-1.0%	14.2%
Subtotal, Southwest	6,222,804	6,270,387	0.8%	11.8%
Rocky Mountain:				
Colorado	719,221	743,483	3.4%	9.0%
Idaho	279,290	298,210	6.8%	11.9%
Montana	138,477	141,688	2.3%	9.1%
Utah	511,096	543,691	6.4%	11.1%
Wyoming	139,711	153,582	9.9%	9.9%
Subtotal, Rocky Mountain	1,787,795	1,880,654	5.2%	10.0%
Far West:				
Alaska	176,494	190,573	8.0%	11.8%
California	7,704,525	9,017,418	17.0%	24.4%
Hawaii	341,986	339,030	-0.9%	5.2%
Nevada	305,983	316,613	3.5%	9.0%
Oregon	658,487	667,236	1.3%	19.9%
Washington	1,237,155	1,333,911	7.8%	16.4%
Subtotal, Far West	10,424,630	11,864,781	13.8%	22.6%
NATIONAL TOTAL	**56,591,115**	**60,568,619**	**7.0%**	**14.5%**

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Although these data are incomplete, the magnitude of state appropriations for capital funding represents a significant investment in higher education: extrapolating the data to all 50 states, over $5 billion would be appropriated for capital, more than 5 percent of operating budget appropriations. As state budgets become tighter, continued appropriations at this level are unlikely to continue. For example, Virginia's budget shortfall is expected to freeze work on multi-million dollar construction projects for which state appropriations were made. Capital spending is non-recurring; thus, it is a common way to use available surplus funds. Whenever institutional budgets are restricted, funding for capital projects, and especially major construction or renovation projects, usually is the first item cut. Because of the deferred maintenance backlog on most campuses, this area will continue to receive attention in the next ten years.

Pricing and Financial Aid Trends

Pricing

Undergraduate resident tuition and fees rose 4.4 percent in 2000-2001 at public universities, and 3.4 percent at community colleges, increasing from an average of $3,362 to $3,510 at four-year public universities, and from $1,649 to $1,705 at two-year public colleges.[17] (See Exhibit 3.) Non-resident undergraduate tuition and fees in 2000-2001 at community colleges averaged $4,942 and were $9,020 at public four-year colleges and universities. Room and board charges at four-year public college and universities increased 5.1 percent, from $4,718 to $4,960. Tuition and fees tend to be higher in the northeast and midwest, and lower than average in the south and southwest.

Total cost of attendance (COA) at a public four-year college or university typically is $11,338 for an undergraduate in-state student who lives on campus, and $9,229 for a commuter student. At two-year public colleges, the typical cost of attendance for an in-state student during 2000-2001 is $7,024.

EXHIBIT 3
AVERAGE COLLEGE AND UNIVERSITY PRICES
2000-2001

	Two-Year Public Colleges	Four-year Public Colleges
In-State:		
Tuition and Fees, 2000 – 2001	$1,705	$3,510
Tuition and Fees, 1999 – 2000	$1,649	$3,362
Percent Change	3.4%	4.4%
Room and Board, 2000 – 2001*	$2,426	$4,960
Room and Board, 1999 – 2000*	$2,128	$4,718
Percent Change	14.0%	5.1%
Books and Supplies	$663	$703
Transportation, Commuter	$1,038	$1,014
Transportation, Resident	N/A	$643
Other Expenses	$1,195	$1,557
Total Budget, 2000 – 2001		
Resident	N/A	$11,338
Commuter	$7,024	$9,229

Includes only board at two year colleges
Source: College Board, *Trends in College Pricing, 2000.*

Average public four-year in-state tuition rose 94 percent in current dollars or 51 percent in constant dollars over the time period FY1991 to FY2001. Similarly, average public community/technical college in-state tuition rose 92.9 percent in current dollars and 50 percent in constant dollars over the same time. In contrast, median family income has risen only 20 percent since 1981 and only 4 percent since 1991; and the average cost of attendance (at public four-year colleges) as a share of family income has increased significantly for low and middle income families.[18] For families whose income is in the lowest fifth of the distribution, average cost of attendance has increased from 40 to 62 percent of family income; and for families who are in the middle quintile, the COA increased from 12 to 17 percent of income. For families whose income is in the highest quintile, average cost of attendance has remained at 5 percent of family income. Growing income inequality in the Nation compounds this problem.

During 2000 sessions, legislatures continued to address the issue of rising tuition costs by imposing tuition freezes, reducing tuition levels, placing restrictions on the rate of increase in tuition, and/or by providing appropriations to offset loss of revenues from

smaller tuition increases.[19] Changes in tuition setting policy or in tuition levels took place in 22 percent of the states during 2000.

Indiana was in the second year of a planned six-year tuition freeze for the technical colleges but Connecticut's legislative freeze on tuition and concomitant additional appropriations were not extended to 2001 because of declining state revenues. Arkansas removed the differential tuition rate for non-resident students, in a move designed to make Arkansas institutions more competitive with those in neighboring states. In Louisiana institutional management boards were given authority to increase fees substantially to offset lagging state appropriations. Arkansas and North Dakota were among the states struggling with defining applicable tuition rates for distance learning courses. The issue of tuition for distance learning is one that likely will be at the forefront for some time.

In 2000 nine states reported the establishment of study groups or commissions to consider changes to state tuition policies. Hawaii proposed a five-year tuition plan; New Mexico considered a statewide policy to formalize setting of tuition as a percent of cost; Missouri established a Commission on the Affordability of Higher Education to make recommendations on tuition and fees. North Dakota was studying a per credit hour tuition model, and changes in tuition for distance education courses and the Wyoming Community College Commission reviewed its tuition policy and likely will make changes for the next five years. In Oklahoma, North Dakota and North Carolina, institutional governing boards are being given more flexibility to set tuition and fee levels.

This is the first academic year that colleges and universities are required to report data on college costs, using standardized definitions for tuition and fees and the cost of attendance, as required by the 1998 reauthorization of the Higher Education Act. Additionally, a national longitudinal study of college and university expenditures has begun that will provide trend information on tuition and fees compared to the Consumer Price Index, and financial aid. Prospective students and their parents can find a wealth of information, including tuition and fee information, at the NCES web site or on college and university web sites. In addition, the U.S. Department of Education produced "Managing the Price of College: A Handbook for Students and Families" which aims to reduce the mythology surrounding costs of college attendance.[20]

Financial Aid

In Academic Year 1999 - 2000, an estimated total of $68.4 billion in student financial aid was awarded to students attending postsecondary institutions, an increase of 4 percent over Academic Year 1998-99 after adjusting for inflation as measured by the CPI. The federal government provided about 66 percent of total aid, and over 57 percent of total aid was awarded as loans. (See Exhibit 4.) [21] Not included in the totals are student wages that are not a part of work-study programs, any of the federal tuition credits created by the Taxpayer Relief Act of 1997, or any of the state tax credit programs. Federal tuition tax credits alone are estimated to provide $12 to $15 billion in credits each year when fully phased-in by 2002. Total student financial aid exceeded state appropriations to institutions of higher education.

Over the last ten years, total financial aid increased about 90 percent in constant dollars although increases in loan programs accounted for over 67 percent of the increase (and grant programs only 23 percent). Loans from all sources totaled 57 percent of all aid in 1999-2000, compared to 47 percent in 1992-93 and 41 percent in 1980-81. The greatest increases have occurred in the unsubsidized loan programs that comprise 45 percent of all federal student loans.

Average indebtedness at graduation has increased to alarming levels. A report by the State Public Interest Research Group's Higher Education Project calls on Congress to increase spending on Pell Grants, make loans more affordable for students, and maintain flexible repayment options to prevent defaults. The report notes that students are going deeper and deeper into debt to pay for college.[22]

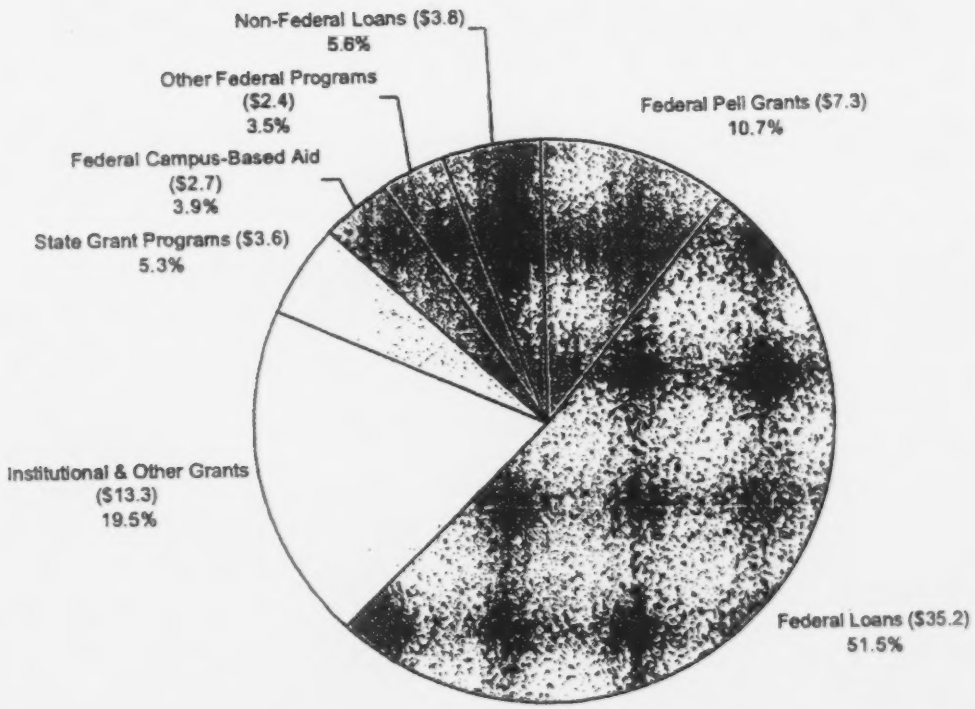
State grant funding increased by over 65 percent in constant dollars over the past ten years, but still comprises only 5.3 percent of total student aid. SHEFOs were asked to provide information on their state's financial aid programs by type of institution. Of the 27 states providing financial aid data, only six states could provide information by type of institution. State financial aid in the 27 states totaled $2.2 billion in FY2001. Although institutional aid has more than doubled since 1990, available grant aid has not offset relative declines in federal grants, nor has total aid increased as fast as increases in the cost of attendance. As a result, the cost of attendance consumes a greater share of personal income, as mentioned earlier.

Access Denied, the report of the Advisory Committee (to Congress and the Secretary of Education) on Student Financial Assistance takes Congress and state legislatures to task for the status of the Nation's commitment to equal educational opportunity.[23] The Advisory Committee notes that the proportion of high-school graduates from families earning less than $25,000 per year who go to college is 32 percent less than the proportion from families earning more than $75,000 per year. Compounding the problem is the fact that the cost of education has risen sharply as a percentage of family income only for low income families, yet aid for middle-income students (in the form of tax credits) and merit have begun to displace access as the focus of student financial aid policies.

Enactment of the Taxpayer Relief Act of 1997 (TRA97) provided new federal "student aid" through the use of income tax credits, savings incentives, and limited deductibility for interest paid on student loans. These programs are projected to cost about as much as all other existing federal financial aid programs combined, and represent a significant shift in how the federal government provides funding for higher education.[24] The federal tax credits (and state programs that copy the federal) are not need-based, represent revenue foregone rather than expenditures, and will benefit primarily middle and upper-middle income students and their families. (Tax credits are capped however for family incomes above $100,000). Lower income students who owe no federal taxes will not benefit, and those students whose family tax bill is less than the credit will receive partial benefits. For these reasons, the Advisory Committee on Student Financial Assistance has attacked the program as contributing to the denial of access.

Federal tax expenditures (such as the Hope and Lifetime Learning Credits) that represent foregone income are estimated to have totaled about $13.8 billion in FY2000, compared to about $7.3 billion for Pell Grants.[25] Advocates of traditional forms of need-based aid believe that expansion of tax expenditures does not bode well for access to higher education, as evidenced by the Advisory Committee's report.

Exhibit 4
Estimated Student Aid by Source FY2000
Total Aid Awarded: $68.4 Billion



(Dollars in Billions)

Source: The College Board, *Trends in Student Aid 2000.*

Since 1998 more than 60 percent of states adopted some merit based scholarship program, copying the Georgia Hope Scholarship in most cases.[28] While many higher education analysts criticize this program, it is enormously popular with legislatures, as are college savings programs and prepaid college tuition programs. All of the prepaid college tuition or college savings programs and the federal Hope and Lifetime Learning programs represent tax expenditures, or foregone revenues, to the federal and state governments. Significant questions have been raised about the trend of governments subsidizing the clients of higher education (students and their families) as opposed to subsidizing the institutions. The impact of these programs on access and equity issues is unclear, although the Advisory Committee on Student Financial Assistance blames these programs for reductions in access.[28]

In addition, several states are proposing new scholarship programs designed to remedy labor shortages in high-demand fields. Oregon has proposed increasing the number of engineers by providing scholarship programs. Other states considering financial aid programs to enhance the attractiveness of high-demand fields or fields with shortages of qualified graduates include Connecticut, Illinois, Maryland, North Dakota, Oklahoma, Pennsylvania, and South Dakota.[29]

Since 1981 current funds revenues of public higher education institutions have experienced a shift in the proportions of revenues from state appropriations and tuition. In 1981 state appropriations contributed about 44 percent of total revenues at public four-year institutions, and tuition made up 12.9 percent of revenues. In 1998, the latest year for which data are available, state appropriations' share declined to 30 percent, while tuition's share of current revenues had climbed to 20.4 percent.[30]

The evidence does not yet indicate the impact on institutional revenues of tying state appropriations increases to freezes or reductions in the rate of increase of tuition. Over half of the states reported that colleges and universities are constrained by state policy to limited increases in tuition. In 12 states, tuition increases cannot exceed the increase in the CPI or Higher Education Price Index (HEPI).[31] When the economy experiences a downturn, as it is now, freezes on tuition increases coupled with little or no increase in state appropriations will require reductions in services or quality or an increase in productivity. It was for that reason that Connecticut removed its freeze on tuition increases. Only time will tell if other states follow suit.

Other Issues

During the 1990s, nine states fundamentally changed their higher education governance structures, and at least 20 other states studied and debated the issue. [32] About one-quarter of the states reported significant governance changes in 1998 affecting issues of increased budget or management flexibility to be able to deal with financial changes more effectively. For at least three of these states (Kentucky, Massachusetts, and Virginia) changes in governance appear to have resulted in significant increases in state appropriations. However, this trend has moderated, and only three states (Colorado, Florida, and New Mexico) report that any discussions of changes in governance are likely in 2001 legislative sessions. Florida's legislature voted to eliminate the Board of Regents as this was being written.

During 2000 legislative sessions, several states discussed additional flexibility as a trade-off to performance indicators or funding. The National Association of State Budget Officers has called performance based budgeting and funding the most significant trend in state budgeting.[33] In 2000, 36 states either had adopted performance budgeting or performance funding for public institutions.[34] South Carolina is the only state where the majority of state appropriations are supposed to be allocated by performance funding; in most other states, no more than 5 percent of the appropriation is allocated by performance indicators. Burke and Serban contend that these funding programs represent a significant shift in funding priorities from what states should do for higher education to what higher education should do for the state and its citizens.

Emerging Issues in 2001 Legislative Sessions

With the national economy showing signs of weakening, higher education leaders are cautious about the results of 2001 legislative sessions. Many higher education leaders are asking for smaller budget increases and hoping to prevent outright budget reductions. Others are prepared to argue that new research funding and workforce development programs are the key to improving the economy in their states.

Higher education leaders expected that FY2001 appropriations for higher education would increase 12 percent on average at four-year institutions and over 21 percent at two-year colleges.[35] However, on average, increases in appropriations averaged much lower, 7.0 percent. Few state appropriations increases matched leaders expectations.

Higher education leaders continue to predict that average increases for 2002 will exceed 10 percent.

Moreover, the economy has slowed as the rate of growth in the Gross Domestic Product (GDP) moderated, the stock market fell, and the dot-com boom has gone bust. Inflation likely will continue to be in check because of the efforts of the Federal Reserve, which may put pressure on unemployment rates, thus increasing college enrollments.[36] Moreover, interest in tax cuts is likely to continue, although states may have reached the limit of tax decreases.

Performance funding and accountability issues are likely to continue to be of interest in legislative discussions. More than one-third of the states are examining workload and productivity as a means of improving learning outcomes or decreasing expenditures. Funding for technology or other issues related to technology and distance learning was cited as an interest of legislators in over 50 percent of the states.[37] This interest continues as legislators respond to employers who seek workers trained in technological applications. Indeed, workforce development was cited as an emerging issue in 40 percent of the states. Higher education officials in half the states indicated that connecting FY2002 requests to economic development or workforce development activities likely will be an effective strategy for gaining new funds.

Although the economy remains strong in many states, in others revenues are not matching predictions, causing mid-year reversions or dis-appropriations. In Virginia, construction on projects funded through state appropriations has been stopped in anticipation of revenue shortfalls. If a recession occurs in the near future, a number of states will face significant budget pressures that will be compounded by transfers of health care programs, especially Medicaid, from the federal to state governments.

Higher education is one of the few discretionary items in state budgets, and always is vulnerable to funding reductions; institutions likely will be facing actual budget reductions in the next two years. The fiscal forecast for state spending indicates that even with normal economic growth over the next decade, states likely will face significant fiscal deficits.

Budget, workforce development, and performance measures are likely to be issues during 2001 legislative sessions, as are ways to tighten belts to match available revenues with resource needs of all parts of state government. The good times were good while they lasted, and likely will continue for some states. However, for others, this year likely will be a time of focusing on productivity and doing more with less.

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[1] MGT of America is a national consulting firm specializing in higher education management and operational reviews, quantitative and qualitative research, and business evaluations. Dr. Mary P. McKeown-Moak is a Principal in MGT's Austin office. MGT's website is www.mgtofamerica.com

SHEEO is the national association of state higher education executives, dedicated to helping states and statewide higher education governing and coordinating boards develop and sustain excellent systems of higher education. SHEEO's website is http://www.sheeo.org/.

[2] Palmer, James. *Grapevine*. Bloomington, Illinois: Illinois State University 2001. *Grapevine* reported adjusted FY2000 appropriations so that numbers shown here do not match appropriations reported in the Second Annual State of the States. www.coe.ilstu.edu/grapevine

[3] National Association of State Budget Officers. *Fiscal Survey of the States*. Washington, D.C. December 2000. www.nasbo.org

[4] Schmidt, Peter. "Governors in Alabama and Mississippi Announce Mid-Year Budget Cuts for Colleges," *Chronicle of Higher Education,* February 6, 2001. www.chronicle.com

[5] NASBO, op. cit.

[6] The College Board. *Trends in Student Aid 2000*. New York: 2000. www.collegeboard.org

[7] Sara Hebel, Peter Schmidt and Jeffrey Selingo, "As Legislative Sessions Begin, Colleges Gear Up for a Slowdown," *Chronicle of Higher Education*, January 5, 2001. P. A24.

[8] National Governors' Association. "Higher Education Focus of Governors' Roundtable," www.nga.org

[9] Complete information on state-by-state appropriations for higher education over the ten year period FY1991 to FY2001 can be obtained at www.ilstu.edu/grapevine Information on state budgets, expenditures, and fund balances can be obtained at www.nasbo.org

[10] National Association of State Budget Officers. *Fiscal Survey of States*. December 2000.

[11] American Association of State Colleges and Universities. *State Issues Digest 2000*. Washington, D.C.: AASCU, April 2000. Available at www.aascu.org

[12] Ibid.

[13] Calculated by MGT from data reported by the National Association of State Budget Officers and Illinois State University's *Grapevine*. Data on percentage share for FY1987 to FY1997 from AASCU *State Fiscal Conditions*, August 1998, page 4.

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[15] Bureau of Labor Statistics. *Consumer Price Index*. Washington, D.C.: U.S. Government Printing Office; also available at http://stats.bls.gov/cpihome.htm

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[17] The College Board. *Trends in College Pricing 2000.* New York: The College Board, 2000.

[18] Ibid.

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[20] National Institute on Postsecondary Education, Libraries, and Lifelong Learning, U.S. Department of Education. *Managing the Price of College: A Handbook for Students and Families.* U.S. Government Printing Office, November 2000. Also available at http://www.ed.gov/pubs/collegecosts/cover.html

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[22] Burd, Stephen "Report Says Congress Must Act to Minimize Students' Mounting Loan Debt," *Chronicle of Higher Education,* March 28, 2001.

[23] Advisory Committee on Student Financial Assistance. *Access Denied*, Washington, DC, February 2001. Also available at http://www.ed.gov/offices/AC/ACSFA/access_denied.pdf

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[27] Selingo, Jeffrey "Many Freshmen Lose Eligibility for Georgia's HOPE Scholarship, Report Says," *Chronicle of Higher Education,* April 20, 1999.

[28] Advisory Committee on Student Financial Assistance. *Op cit.*

[29] Hebel, Schmidt, and Selingo, op. cit.

[30] Calculated from data from National Center for Education Statistics, *Digest of Education Statistics 2000.* U.S. Government Printing Office, 2000.

[31] AASCU. *State Issues Digest 2000.*

[32] AASCU. *State Issues Digest 2000.*

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[34] Burke, Joseph. Presentation made to the Second Annual FIPSE Conference on Performance Funding, Charleston, SC. September 2000.

[35] Calculated from data in Hebel, Schmidt, and Selingo, *Chronicle of Higher Education,* January 5, 2001.

[36] AASCU. *State Issues Digest 2000.*

[37] SHEEO/MGT Survey of SHEFOs.